



Director of
Central
Intelligence

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CCPAS/CIG

CY# 281

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National Intelligence Daily

Thursday
10 March 1983

~~Top Secret~~

CPAS NID 83-0581X

10 March 1983

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The *Daily* will adopt a new typeface and a larger page size beginning with the issue of 11 March. The format of the *Daily* will not change.

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ISRAEL-LEBANON: Status of Negotiations

The Israelis took an even firmer position on security arrangements in Lebanon at the negotiating session on Tuesday, but a full presentation of their new proposals apparently awaits Foreign Minister Shamir's visit to Washington beginning tomorrow. [REDACTED]

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Tel Aviv continued to insist on the establishment of five observation posts in southern Lebanon. Israel also made several new proposals, including daily joint patrols to verify compliance with the security arrangements. [REDACTED]

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In addition, the Israelis suggested that their Navy be allowed the right of hot pursuit into Lebanese territorial waters and that their intelligence services be permitted to operate freely in the security zone. They reiterated their demand that Lebanese militia leader Major Haddad be appointed commander of the proposed territorial brigade in southern Lebanon. [REDACTED]

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On normalization issues, Israel backed away from its previous insistence that Lebanon make an unequivocal statement on the free movement of persons and goods. US and Lebanese delegates found the Israeli position unexpectedly flexible. [REDACTED]

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Comment: Tel Aviv's apparent firmness on security issues and flexibility on normalization probably are in line with the prevailing public mood. Recent polls indicate that there is widespread bipartisan support for establishing effective security arrangements in southern Lebanon but that most Israelis do not believe full normalization should stand in the way of an early Israeli withdrawal. [REDACTED]

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Shamir is likely to present a cabinet-approved set of proposals to counter those worked out last month by Ambassador Habib. He probably will reaffirm Tel Aviv's readiness to compromise on the issue of the observation posts but only in return for explicit security arrangements that go beyond what Lebanon has been willing to accept. The proposals also may include the publicized suggestion that US troops participate in the joint patrols. [REDACTED]

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USSR - WESTERN EUROPE: Baltic Submarine Proposal

The USSR has offered to withdraw its six ballistic missile submarines in the Baltic Sea as part of a Nordic nuclear-free zone. [redacted]

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Soviet General Chervov, an arms control spokesman for the General Staff, made the offer in a television interview aired in Sweden on Monday. In 1976 the Soviets stationed six nuclear-armed but diesel-powered G-IIs, which were exempted from SALT I, in the Baltic to improve the coverage of their SS-N-5 missiles against Western Europe. The G-IIs have drawn criticism in West European media. [redacted]

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Comment: Although the proposal was raised outside the INF context, it parallels Soviet offers to withdraw or destroy some SS-20s in the European theater and is meant to demonstrate flexibility on the arms issue. The Soviets already are using the submarines in INF negotiations, in which their 18 launchers are included in Soviet force data. [redacted]

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A Nordic nuclear-weapons-free zone is a standard theme in Soviet approaches to the Scandinavian countries and Finland, but Chervov's proposal is the first specific offer under this concept. [redacted]

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The proposal does not include any Soviet restrictions on the transport of nuclear weapons or on the basing of nuclear systems within Soviet territory. It also avoids the issue of nuclear warheads for torpedoes and antiship missiles in the Soviet Baltic Fleet. [redacted]

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The SS-N-5 missiles are outdated, and the Soviets may already intend to retire the G-II submarine. Similar launchers on some H-II-class submarines, counted under SALT I, are being dismantled ahead of requirements. [redacted]

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The Soviets presumably hope the proposal will help mollify Scandinavian unhappiness over Soviet submarine violations of the Swedish coast, and over Soviet military preparations in general. TASS last weekend attacked Norwegian Prime Minister Willoch, who, it claimed, told Finnish journalists recently that the Soviet buildup has increased tension in northern Europe and that Moscow could not be trusted to abide by any treaty that created a nuclear-weapons-free zone. [redacted]

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WESTERN EUROPE: Reactions to West German Election

West European officials and media generally view Chancellor Kohl's victory as a boost for Western unity, but they are uncertain about its possible effect on the West German foreign policy consensus.

[redacted]

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While most West European officials attribute the Kohl reelection to economic conditions, some also cite the perception that the opposition Social Democrats were ambiguous on INF. A spokesman for Norwegian Prime Minister Willoch stated publicly that West German voters had rejected security policy experiments, and Italian Foreign Minister Colombo said the outcome represented a failure of efforts by the East to sow discord in the West on questions of defense.

[redacted]

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The West European press is emphasizing Allied satisfaction and Soviet disgruntlement at Kohl's success. It stresses that the conservative triumph will put pressure on the USSR to accept balanced INF reductions. Some commentators add that the US now can propose new solutions in the Geneva talks without fear of undermining confidence in NATO's commitment to deployment if negotiations fail.

[redacted]

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Most West European media warn, however, that West German deployment of INF still is not automatic. They judge that, despite its majority in the Bundestag, the Kohl government will need public gestures of US flexibility to counter domestic opposition to deployment.

[redacted]

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Some West European leaders and press commentators express concern that the longstanding foreign policy consensus among West Germans could be in danger. French Foreign Ministry officials argue that the Greens' entry into the Bundestag and the Social Democrats' leftward shift will give new focus to anti-NATO sentiments.

[redacted]

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Comment: The French, who are quick to emphasize dangers in West German developments, have cautioned against West German neutralism. They may play up their military consultations with Bonn in an effort to strengthen public confidence in the European dimensions of the Alliance.

[redacted]

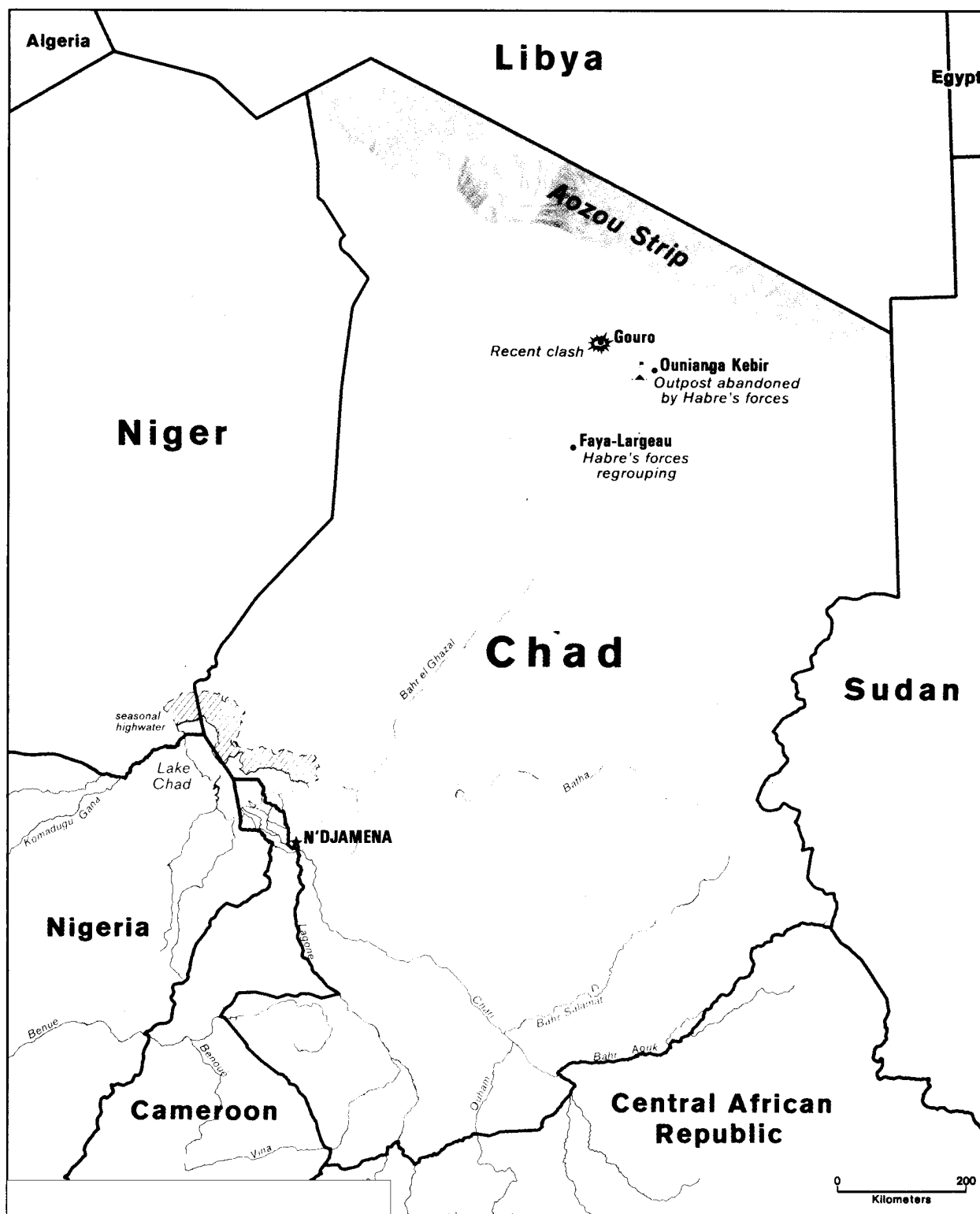
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CHAD: Military Setback for Habre

President Habre's forces have abandoned their northernmost outpost at Ounianga Kebir after suffering important losses near Gouro recently at the hands of the Libyan-backed dissidents.

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The clash near Gouro took a heavier toll in personnel, equipment, and morale than was earlier reported. Government commanders became overconfident after several minor victories and attacked the rebel stronghold without reconnaissance or pausing to consolidate their positions. The government force was ambushed from well-planned dissident defenses.

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The US Embassy says survivors of the raid panicked and retreated to Faya-Largeau. Although Habre is trying to reinforce the outpost, the Embassy says his troops are outmanned, outsupplied, and outgunned. Rebel troops, meanwhile, have occupied and are reinforcing Ounianga Kebir.

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[redacted] a Chadian Government delegation returned from Tripoli on Saturday after meeting with several Libyan officials. No results were announced, but the two sides agreed to hold more meetings.

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Comment: Previous attacks by Habre's impulsive troops against stronger forces in open country have been successful, but his units will find it difficult to lay siege to well-defended strongholds. The dissidents evidently are benefiting from the Libyans' continuing tactical advice.

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Habre will have to regain the initiative soon or risk more reverses. Other ethnic Chadians who currently support Habre will be tempted to rally to the opposing side if he appears to be weakening.

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The President's efforts to restore momentum will be handicapped by shortages of men and equipment. The continuing reinforcement in the north leaves N'Djamena and the south increasingly vulnerable.

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Diplomatic contacts with Libya probably are intended to buy time. Habre also may want the option of negotiating with the dissidents and Tripoli if the military situation deteriorates substantially.

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UK: Labor's Draft Defense Policy

The Labor Party probably will adopt unilateral nuclear disarmament in its formal platform. [redacted]

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A draft defense policy document leaked this month calls for unilateral nuclear disarmament over a five-year period. According to the document, a Labor government would implement an immediate nuclear freeze and establish a nonnuclear defense policy for the UK. As part of this policy, Labor would prevent the deployment of cruise or Pershing missiles in the UK and "elsewhere in Western Europe," cancel the Trident program, and remove all existing nuclear bases and weapons. [redacted]

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The document also proposes that the UK's Polaris force be included in the US-Soviet disarmament negotiations, that the UK be a party to the negotiations, and that the nonnuclear defense policy be put into effect "in the lifetime of the next Parliament." In addition, the draft endorses support for NATO and indicates that a Labor government would consult with the Allies as it carried out its nuclear policy. [redacted]

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Comment: Moderates in the party have formed a "Labor Defense and Disarmament Group" to try to soften the draft, but they are unlikely to make major changes. They probably count heavily on Allied objections to steer any future Labor government away from the more radical proposals. [redacted]

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The new defense policy is unlikely to cost Labor much voter support. Polls show that a majority--even among Labor voters--opposes unilateral disarmament, but there is no indication a great number would switch their votes over this issue. [redacted]

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Under the electoral system, Labor could win the next election with less than 40 percent of the vote, a factor that does little to discourage a leftwing platform. Prime Minister Thatcher almost certainly will make defense a major part of her reelection campaign, but economic issues and leadership qualities probably will continue to dominate the concerns of voters. [redacted]

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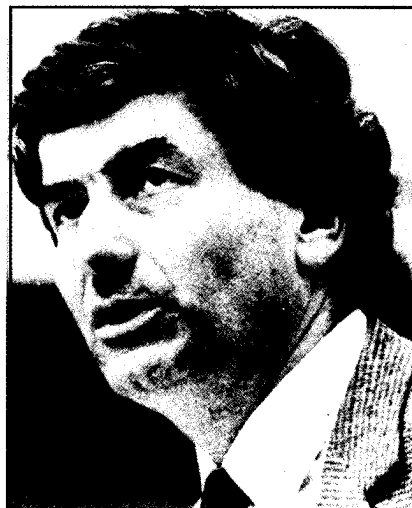
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Prime Minister Ruud Lubbers

Age 43 . . . active in Christian
Democratic affairs since 1973 and party
floor leader in parliament since 1978 . . .
Economic Affairs Minister 1973-77 . . .
headed family business before entering
politics . . . self-serving and pragmatic . . .
places high value on achieving consensus . . .
highly regarded for economic expertise
. . . firm supporter of NATO.



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NETHERLANDS-US: Prime Minister's Visit

Prime Minister Lubbers, who arrives in Washington on Tuesday, will stress the difficulties he faces on INF but will try to show that differences on this issue need not impair close relations with the US. [redacted] 25X1

The Prime Minister's Christian Democrat - Liberal coalition has a secure parliamentary majority on most issues, but a bloc of Christian Democrats opposed to INF is preventing an early favorable decision on deployment. Lubbers is primarily concerned with holding his Christian Democratic Party together and avoiding violent anti-INF demonstrations. [redacted] 25X1

Comment: Lubbers is skeptical about US arms control policy and unenthusiastic about INF. He would welcome any arms control agreement that precluded the need for INF deployment in the Netherlands or at least reduced substantially the number of missiles to be deployed. [redacted] 25X1

The Dutch Government is to make a statement on nuclear weapons this fall, and Lubbers may provide an early indication of how he plans to approach the INF issue. He probably will reassert that progress on arms negotiations and reduction of other Dutch nuclear roles in NATO are necessary if INF is to stand any chance of success in the Netherlands. [redacted] 25X1

To fend off Allied pressure, the Prime Minister is likely to agree to move forward discreetly with basing preparations. At the same time, however, he probably will try to delay naming a base site. [redacted] 25X1

Lubbers also will try to demonstrate that differences with the US on nuclear weapons and Third World issues do not affect broader bilateral relations. He is concerned about protectionist tendencies in the US and may want to pursue Defense Minister de Ruiter's discussions last month on defense cooperation agreements that affect the Dutch economy. [redacted] 25X1

In addition, Lubbers also will want to exchange views on developments in Latin America, especially in Suriname. Some Dutch officials fear that cutting off Western aid to Suriname could push the Bouterse regime even closer to Cuba. [redacted] 25X1

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ZIMBABWE-BOTSWANA: Nkomo's Status

Opposition leader Nkomo's decision to flee to Botswana could spell the end of the Zimbabwe African People's Union as an organized political force in Zimbabwe. Nkomo left Zimbabwe after government troops raided his home on Saturday during a security crackdown. He met yesterday with Botswanan President Masire, who reportedly is unhappy about Nkomo's unexpected arrival. Relations between the two countries have been strained by Zimbabwe's desire that Botswana return the dissidents from among the continuing flow of an estimated 50 Zimbabweans per day into Botswana. [redacted]

25X1

Comment: Some ZAPU officials--who have already expressed dissatisfaction with Nkomo's leadership--may try to reopen reconciliation talks with the ruling Zimbabwe African National Union. They probably hope such talks would forestall further violence in Matabeleland. ZANU, however, may believe the time has passed for formal reconciliation or absorption and may carry out its recent threat to ban ZAPU as a political party. [redacted]
[redacted]

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POLAND: Political Developments

Despite the official announcement yesterday of the dates for the papal visit to Poland, the Church and the regime have not yet agreed on all the details. Last week former Solidarity chief Walesa told US Embassy officers that he intended to work hard at preserving calm to ensure that the visit is held. Yesterday, however, Walesa told Western reporters he is prepared to take a "more resolute stand" against the state and allegedly is willing to participate in demonstrations, hunger strikes, and work stoppages. [redacted]

25X1

Comment: The Pope's visit, now set for June, remains contingent upon the continuation of social order. Although Walesa's comments yesterday are his most radical since being released from internment, they may only reflect temporary anger over the trial of a former union colleague. [redacted]

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SUDAN: Regional Tensions Increasing

The arrest of two prominent officials of the southern regional administration for publicly criticizing the policies of President Nimeiri's Arab-dominated regime toward the area is likely to intensify antinorthern sentiment among southerners. Before the arrests, the US Embassy reported a growing risk of increased subversion in the non-Muslim south, which continues to be plagued by political infighting among tribal groups, economic stagnation, and growing lawlessness. Nimeiri has largely delegated responsibility for the south to First Vice President Tayyib, who favors tough military solutions. [redacted]

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Comment: The south's manifold problems are chronic, and a renewal of the civil war that Nimeiri ended in 1972 seems unlikely. Nonetheless, if Khartoum sends a large number of northern troops to deal with security problems in the south, even stronger antigovernment feelings may be aroused. Senior military officers, moreover, almost certainly are nervous about involving their troops in intrasouthern quarrels and would be unhappy if the regime ordered a sizable force to the south. [redacted]

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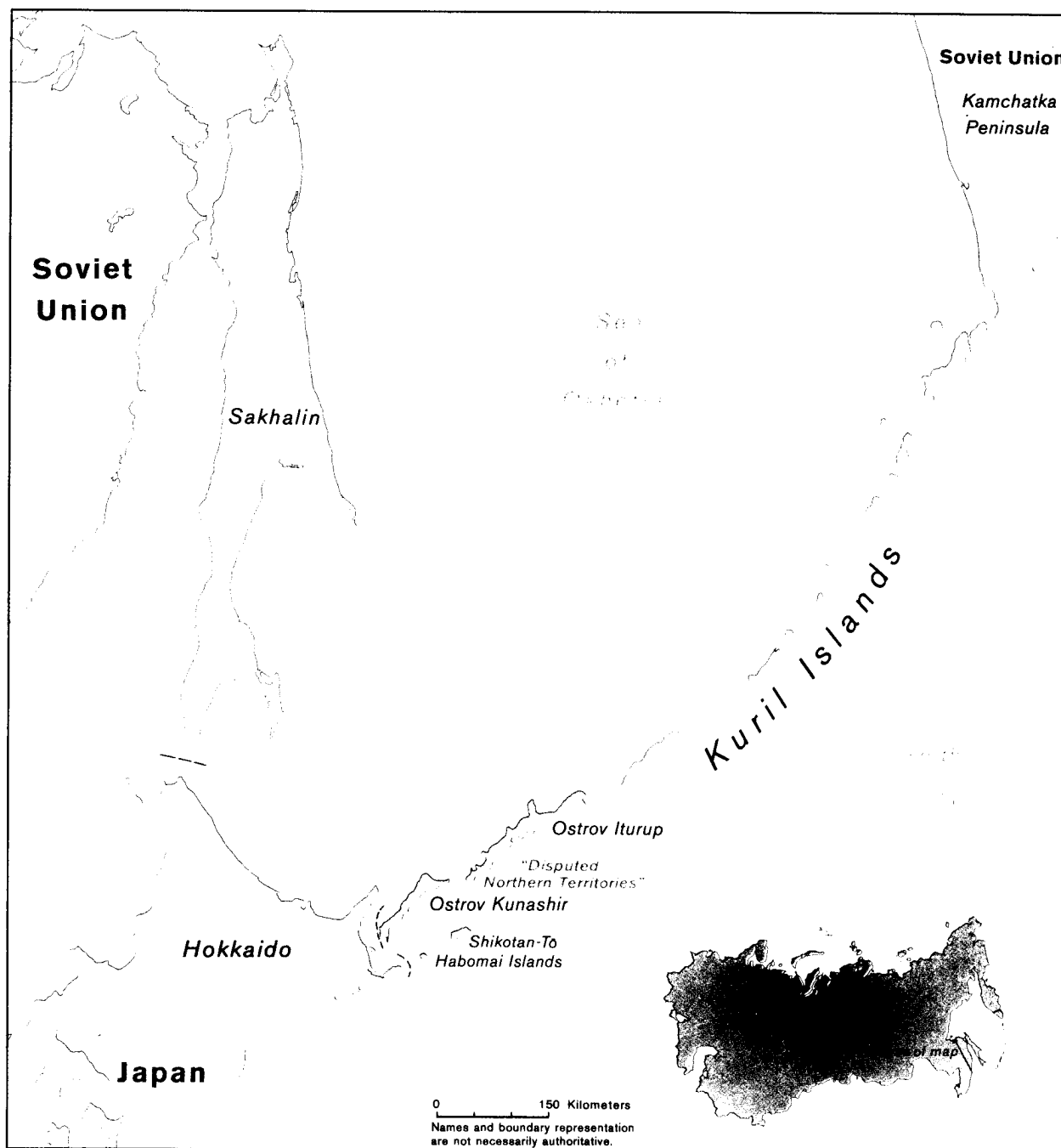
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Special Analysis

USSR-JAPAN: Increased Acrimony

Relations between the USSR and Japan have deteriorated markedly. Conflicting security policies pursued more vigorously by new leaders in Tokyo and Moscow are the heart of the problem. Both sides have reason to take some of the current heat out of the relationship, and public manifestations of the problem may subside in the near term. Even so, the abrasiveness that has characterized relations since the invasion of Afghanistan and the likelihood that the new leaders will not make major substantive concessions strongly suggest that the impasse will persist for the foreseeable future.

[redacted]

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Japan's security policy rests on its security treaty with the US and gradual improvements in its own defense capabilities. Prime Minister Nakasone has not changed these policies, but he has been more active than his predecessors in implementing them. During his recent visit to Washington he also suggested that in a confrontation with the USSR Japan could function as an "unsinkable aircraft carrier" and could assist US forces in blocking the straits that give the Soviet Navy access to the Pacific.

[redacted]

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Soviet Threats

Moscow attacked the new emphasis on defense as a revival of "militarism." It reacted to the "aircraft carrier" remark by denouncing Nakasone by name and by indicating that Japan could become a target for nuclear attack. Moreover, a Soviet official in Moscow recently told [redacted] that the "aircraft carrier" could be "sunk" in 20 minutes.

[redacted]

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While Nakasone was in Washington, the USSR made public its earlier INF proposal to move some SS-20 missiles to Siberia--out of range of Western Europe but within range of Japan. The Soviets have since told Japanese officials that SS-20s in East Asia are not directed at Japan but are defensive weapons made necessary by US bases in South Korea and Japan.

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The threat to transfer SS-20s from Europe, however, has made both the Japanese Government and public more aware of the INF issue. The Japanese have asked for close consultation with the US on the INF talks and are increasingly interested in a dialogue with NATO. [redacted]

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Tokyo believes the Soviet campaign is designed to intimidate Japan, foment discord in US-Japanese relations, and stimulate popular and business pressure against the Prime Minister. Public opinion polls indicate many Japanese are worried by Nakasone's tough stand on defense, but there has been nearly universal resentment of Moscow's heavyhanded threats. These threats have reinforced Nakasone's firm approach to relations with the USSR, and he has made clear that he will not be bullied. [redacted]

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The tough Soviet rhetoric also is aimed at arousing fear of Japanese militarism in other Asian countries, particularly China. In addition to preventing the establishment of a formal security relationship among China, Japan, and the US, the USSR is trying to undermine current understandings among the three powers on security issues. [redacted]

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The Soviet effort to drive a wedge between the Japanese and Chinese has not been particularly effective. Last month Nakasone sent an emissary to Beijing to reaffirm good relations and discuss Japan's diplomatic and defense posture. The visit was generally successful, with the Chinese endorsing a limited defensive buildup and stronger US ties. Publicly and privately, the Chinese continue to express understanding of Tokyo's view of the Soviet threat. [redacted]

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The recent increase in tension stemming from conflicting security policies is taking place against a backdrop of continued acrimony over the so-called "Northern Territories." Nakasone has made it clear that there can be no major improvement in either political or economic relations until all four of the disputed islands are returned to Japan, something that the USSR has consistently refused to do. [redacted]

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[redacted] 25X1Maintaining a Dialogue

Despite the increasing tension, both sides have displayed an interest in maintaining contacts. Nakasone believes it is imperative to keep channels of communication open to Japan's principal adversary. Moscow hopes to entice Japanese businessmen to put pressure on Tokyo to relax adherence to Western restrictions on trading with the USSR. [redacted] 25X1

In mid-February Fisheries Minister Kamentsev became the first Soviet minister to make an official visit to Japan since the invasion of Afghanistan. In late February a 250-member business delegation visited Moscow. Little substantive progress was made during these exchanges, but Soviet-Japanese dialogue will continue. [redacted] 25X1

The Japanese will host the annual Soviet-Japanese administrative-level talks in early April. Another Japanese business delegation will visit the USSR in June. [redacted] 25X1

Outlook

The public controversy over security issues may abate somewhat in the near future. Conservative leaders in Tokyo face a series of elections in the next few months and believe the current degree of public anxiety over security policy is not to their advantage. As a result, Nakasone has agreed to focus on more politically rewarding domestic issues. [redacted] 25X1

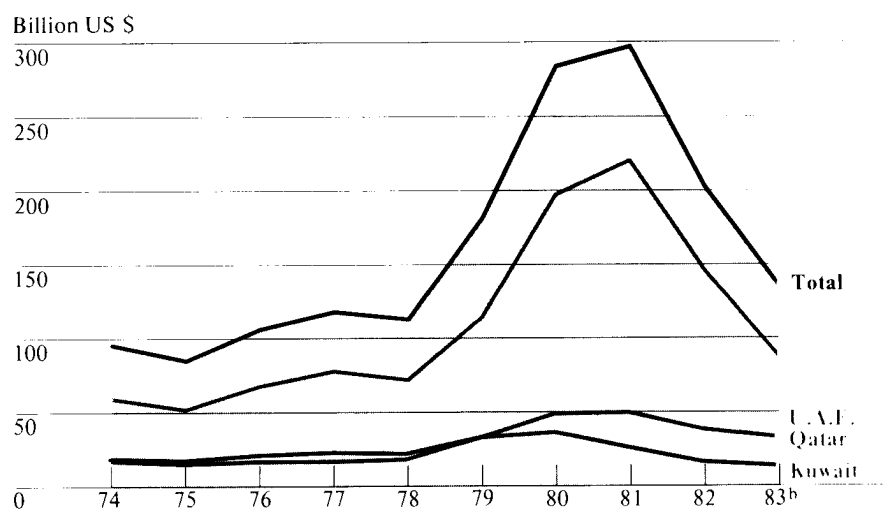
Moreover, the Japanese are interested in preventing the relationship from sliding further. The Soviets maintain an interest in involving Japanese industry in trade and Siberian development, and they may tone down their rhetoric to improve the atmosphere. [redacted] 25X1

Nonetheless, there is little prospect for any measurable improvement in bilateral relations. Moscow is likely to pursue a hard line against Japan throughout the region as long as Tokyo maintains its current policies on defense and the Northern Territories. [redacted] 25X1

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Oil Export Earnings of Persian Gulf Arab Oil Producers^a^a Excludes Bahrain and Oman.^b Projected.

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Special Analysis

PERSIAN GULF: Coping With Reduced Income

The conservative Arab oil-producing states of the Persian Gulf--Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Qatar, and Oman--are facing a difficult adjustment resulting from falling oil revenues. Their earnings dropped by \$48 billion in 1982 and probably will decline by an additional \$25-50 billion this year. Governments of the six countries recognize the need to maintain enough economic momentum to forestall political and social unrest and will draw on their ample foreign reserves to ease the transition to reduced spending. A collapse of oil prices, however, would force more painful economic decisions on these nations. [redacted]

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Saudi Arabia's oil revenues, which account for 99 percent of its export earnings and about 80 percent of domestic revenues, fell from \$111 billion in 1981 to about \$74 billion in 1982. Oil exports averaged only 6.3 million barrels per day in 1982, compared with 9.6 million in the previous two years. By the middle of last month, Saudi exports were down to 3.8 million barrels per day. [redacted]

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If there is a limited economic recovery in the OECD, the Saudis are likely to be able to export 4-5 million barrels per day in 1983. Overall daily demand for OPEC crude oil probably will be 18-19 million barrels. [redacted]

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Riyadh has not yet developed a comprehensive plan to deal with diminishing revenues. Some payments are being delayed, several new development projects have been suspended, and investment for oil facilities and other capital projects has been slowed. Overall spending, however, remains close to the level of 1982 and, according to recent data, imports are still rising, pointing to a budget deficit at the end of the Saudi fiscal year next month. [redacted]

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Saudi leaders are reluctant to cut back on benefits and subsidies to which most of their countrymen have grown accustomed. They also are committed to increased

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Oil Exports of Persian Gulf Arab Oil Producers^a

^a Excludes Bahrain and Oman.^b Projected.

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[redacted]

military purchases and see foreign aid as necessary to protect against radical Arab action, to preserve moderate Arab regimes, and to prop up Iraq. [redacted]

Barring an oil price collapse, the Saudis probably will continue to procrastinate on spending decisions. Foreign assets of some \$150 billion allow Riyadh such a delay. [redacted]

As these reserves fall, however, the government is likely to become more selective in its expenditures. Spending for capital projects probably will be cut most heavily, although foreign aid and domestic subsidies also may be reduced. [redacted]

The Other Persian Gulf States

In Kuwait, the government has already lowered subsidies and trimmed employment of foreigners in the public sector. With expatriates substantially outnumbering native Kuwaitis, the leadership will be hesitant to move more rapidly in reducing still generous benefits and employment opportunities--even if oil prices collapse. Despite the bleak revenue outlook, the leadership also has decided not to cut development spending much below the level of 1982. [redacted]

Kuwait also has foreign exchange reserves and investment earnings to cushion its revenue loss. Investment earnings in 1982, in fact, approached oil earnings. The regime will seek to phase in gradual spending reductions while continuing its long-term policy of securing guaranteed markets through acquisition of oil sales outlets abroad. [redacted]

Oman, the poorest Persian Gulf state, probably will require additional aid from its more wealthy neighbors. Its limited needs, however, can be satisfied with little difficulty. [redacted]

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Bahrain's economy, and therefore its prospects, are heavily tied to Saudi Arabia's. The United Arab Emirates and Qatar are likely to be able to maintain domestic subsidies but will make some reductions in development spending. Both states lack well-conceived development programs, and an austerity program probably would help focus investment plans. [redacted]

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Influence on OPEC

In general, the accumulated wealth of the Arab states of the Persian Gulf puts them in a much better position than other OPEC countries to weather the effects of oil price cuts. If and when oil prices start to rise again, and if OPEC survives the current difficulties, their financial strength and production capacity will allow them to exert heavy influence on OPEC pricing and production policies. In light of recent experiences, Saudi Arabia and its allies in the region are increasingly likely to insist on a conservative OPEC oil pricing policy that does not repeat the rapid price hikes of the 1970s. [redacted]

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